GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:410
ANSWERED ON:04.05.2012
MULTIPLE ROLE OF RBI
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Will the Minister of FINANCE be pleased to state:

(a) whether the Reserve Bank of India (RBI) performs multiple functions of a regulator, business of Government securities, market intervenor to control exchange rate and manager of the country's credit policy, etc.;

(b) if so, the reaction of the Government thereto;

(c) whether the above functions tends to create a conflict of interests and if so, the details thereof and reaction of the Government thereto;

(d) whether the Government proposes to overhaul/amend/ draft a new RBI Act so as to rationalise and harmonise the different roles assigned to RBI; and

(e) if so, the details thereof and if not, the reasons therefor?

Answer

FINANCE MINISTER (SHRI PRANAB MUKHERJEE)

(a)to (e) : A statement is laid on the Table of the House.

STATEMENT FOR LOK SABHA STARRED QUESTION NO.410 FOR 4th MAY, 2012 REGARDING MULTIPLE ROLE OF RBI TABLED BY SHRI SHIVKUMAR UDASI

(a) & (b): The functions of the Reserve Bank of India (RBI) are derived from the Reserve Bank of India Act, 1934, the Indian Coinage Act, 1906 and from several other legislations such as the Banking Regulation Act, 1949, Securities Contract (Regulation) Act, 1956, the Foreign Exchange Management Act, 1999, the Government Securities Act, 2006 and the Payment & Settlement Systems Act, 2007. The RBI is entrusted with several functions, such as functions of monetary authority, forex management, domestic debt management, banking regulations, development role, etc. As a monetary authority, the RBI has as its objectives price stability, growth and financial stability. In addition, the RBI has responsibilities for forex management and government domestic debt management - both national and sub national. As the banking regulator − RBI regulates commercial banks, cooperative banks (both rural and urban), financial institutions and non banking financial companies.In its developmental role RBI attempts to ensure inclusive growth − which includes framing of policies on rural credit, Small & Medium Enterprise (SME) and Financial Inclusion and this is an integral part of its functions.

(c): There is no conflict of interest in the multiple responsibilities enjoined upon RBI. In fact, the natural synergies inherent in the multiple functions provide RBI with an inherent advantage in addressing the broader objectives of price stability, financial stability and "operating the currency and credit system of the country to its advantage", as enshrined in the Reserve Bank of India Act. In its role as debt manager to the Government,the RBI has been effectively supplementing the efforts of the Government to stimulate the economy to a higher growth path and ensuring that the enhanced market borrowing program is completed in a non-disruptive manner. Internationally, the role of central banks in each country has evolved in context of specific circumstances, but many of the central banks perform multiple functions, as the Reserve Bank of India.

(d) & (e): The Government has set up the Financial Sector Legislative Reforms Commission (FSLRC) made with a view to rewriting and streamlining the financial sector Laws, Rules and Regulations to bring them in harmony with the requirements of India`s fast growing financial sector.